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Japanese buy hand-held-computer co.

The CIA investigates the sale of Friends Amis, Inc., to Matsushita

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SAN FRANCISCO, CA—The U.S. Central Intelligence Agency is making inquiries into the quiet sale of a San Francisco personal-computer firm to a Japanese multinational corporation in July.

The investigation began after the purchase of Friends Amis, Inc., a small hand-held-computer research-and-development company, by Matsushita Electrical Corporation, a Japanese conglomerate that distributes its consumer-electronics products through two U.S. subsidiaries, Panasonic and Quasar.

The CIA inquiries may have been sparked by the unusual circumstances surrounding the sale. Former Friends Amis employees have stated that three Matsushita technical representatives oversaw the physical dismantling of the corporation during a several-week period in July.

According to Patrick Pritchard, former software-program manager at Friends Amis, after the sale of the company, three technical representatives from Matsushita went through every-

thing at Friends Amis' refurbished Fisherman's Wharf offices "piece by piece" before sending it to Japan.

"They collected and copied virtually everything going from desk to desk; they even took a note on one of my dental appointments," he said.

Under the terms of the agreement, Friends Amis was sold to Matsushita for \$7 million, after several weeks of negotiations between the two companies during July. As part of the sale, the shareholders retained almost \$3.3 million in company assets.

The Central Intelligence Agency's interest in the Friends Amis sale came to light last week, after two agents spent more than an hour interviewing a business contact close to Friends Amis. The agency had spoken earlier with a Friends Amis employee, questioning him about the state of Japanese technology. Both sources have asked not to be identified.

The investigation may be part of a stepped-up effort on the part of the Reagan Administration to stem the

flow of high technology from this country. The policing of high-technology exports from Silicon Valley will be coordinated by a new federal task force planned by U.S. Attorney Joseph Russoniello. The cooperating agencies include the FBI, CIA, State Department, U.S. Customs Agency, Commerce Department and others.

In an interview, Russoniello said that he could neither "confirm or deny" the existence of an investigation into the Friends Amis sale.

Friends Amis is the brainchild of Ronald F. Gordon, a 42-year-old businessman who, before founding his current company, worked as an international marketing consultant for many companies, including the Atari Corporation. Gordon has gained a reputation for putting together deals with Japanese consumer-electronics companies aimed at the U.S. mass market. Friends Amis' first product was a hand-held language translator that was marketed in this country by the Craig Corporation.

More recently, Friends Amis designed a hand-held computer, the HHC, that Matsushita is manufacturing and marketing. When it became available in this country late in 1981, the HHC was the first hand-held computer to be introduced with full computer capabilities.

Although Matsushita was marketing the computer itself, Friends Amis had retained exclusive rights to produce application-software programs for the computer; the software is packaged in tiny plug-in capsules. Several former employees have said that Gordon frequently claimed that he wanted to be in the "razor blade" business, selling software packages that ultimately would prove to be more lucrative than selling the computer itself.

Recently, however, Gordon became discouraged by the slow development of the market for the HHC and was frustrated by what he called multiple layers of "bureaucracy" at Matsushita. He said that he had decided to sell the company because "my habit has been creating things on my own and not working on day-to-day details. There was no real excitement left."

Gordon said that he was disappointed that Matsushita's U.S. distributors, Panasonic and Quasar, had failed to commit themselves to a major advertising or distribution campaign to sell the HHC.

One question left unresolved is the significance of the software technology transferred to Japan as a result of the sale. In addition to several software-application programs, Matsushita obtained the source code to a development system called Snapforth that software designers had used to create many of the software programs for the HHC.

Whether the software was state of the art and should properly have been placed on a list of embargoed technology is apparently a matter of dispute. According to Gordon, Friends Amis examined the export regulations carefully and decided that the restrictions didn't apply to the technology they were exporting. He also said that the Japanese already had licensed everything that they later obtained in the purchase.

Others who were involved in the negotiations had no recollection of any concern in the company about export restrictions.

Karl Dobrinich, former vice-president of finance and operations at Friends Amis, said he didn't remember any particular concern about export restrictions during the negotiations.

"No forms were filled out, to the best of my knowledge," he said.

John Shea, president of Technology Analysis Group, a research organization in San Jose, California, that tracks technologies for private and government clients, said that computer software is one of the key high-tech areas in which Japan trails the U.S.

"One of Japan's biggest technological weaknesses is software," he said. "There is a tremendous interest on their part in obtaining software technology, both legally and illegally. They'll make up the gap soon." ■